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ABSTRACT

The literature on financial issues in higher education is limited. Six major themes in the literature in 1996 include the reduced federal role and increased state role in funding; managing costs, including deferred maintenance and capital spending in times of shrinking resources; concern about rising tuition and its impact on access; concern about changes in funding, e.g. business/private sources and the reduction in state funding and the resulting impact on institutional mission; the management of endowments; and international comparisons of institutions of higher learning. The literature reflects the shift from federal to state responsibility for allocating educational resources, as well as the shift from funding formulas to accountability and productivity. A number of articles from the public and business sectors call for reducing costs and controlling expenses, but there is virtually no literature from the higher education sector on this issue. A major study on trends in higher education finance presents data from an ongoing study of tuition discounting at 270 independent colleges and universities. Other studies review mission versus sponsor issues, management of endowments, and how higher education is financed internationally. Issues not addressed in the literature include the increasing importance of fund-raising as state funding shrinks; strategic planning in a time of shrinking resources; debt financing; and creative budget strategies. (Contains 25 references.) (JM)

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Higher Education Trends (1997-1999): Finance

Adrianna J. Kezar

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Higher Education Trends (1997-1999)
Finance

by Adrianna J Kezar

Finance continues to draw minimal attention in higher education, and the amount of literature on the subject is limited. Approximately 6.5 percent of the literature input into the database in 1996 is related to finance - a surprise, given the rhetoric and discussion about controlling costs, rising tuition, and shrinking financial aid.

Six major themes emerge in the literature from 1996:

1. *The reduced federal role and increased state role in funding;*
2. *Ways to manage costs, including deferred maintenance and capital spending in times of shrinking resources;*
3. *Concern about rising tuition and its impact on access;*
4. *Concern about changes in funding, e.g., business/private sources and the reduction in state funding and the resulting impact on institutional mission;*
5. *The management of endowments; and*
6. *International comparisons*

The Reduced Federal Role

The literature reflects the slow shift from federal to state responsibility for allocating educational resources (Lafer; Ruppert). In addition to the shift in allocations, strategy has shifted, from funding formulas to accountability and productivity. Mark Lafer's "Direct, Need-based, Student Financial Grant Aid Policy on Enrollment Trends at Institutions of Higher Education: The Prospect for Determining the Effect of State Policy" examines what is known about the changing impact of both federal and state policies on direct, need-based, student financial aid. Lafer's major conclusion is that assessment of the impact of this policy change has been limited, and he includes recommendations for further research to evaluate the effectiveness of specific state policies to compensate for a reduced federal role in support of access to higher education, especially for students at or near the poverty level. His recommendations set up a framework for future research. Another helpful source, a survey of 23 college and university coordinators who assess the outcomes of financial aid, reports findings in connection with Tennessee's 15-year performance funding initiative designed to enhance accountability and improve performance. It reveals strengths and weaknesses associated with 10 indicators of institutional performance and advances reasons for the program's longevity (Banta et al.).

A report written by Mary McKeown for SHEEO examines the development of funding formulas and describes the move away from them; originally viewed as a means to distribute public funds rationally and equitably, they are now deemed complicated methodologies. In 1996, 30 states reported using funding formulas for four-year institutions, although many are now eliminating formulas in favor of measures of productivity and accountability to determine the allocation of resources, as formulas are unable to recognize the range of objective and subjective differences among institutions. Others explored more effective ways to use federal funds. A College Board study examines

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alternative ways to use the approximately $6 billion now spent annually on Pell grants to produce higher maximum awards for low-income students (Breneman and Galloway). The seven alternatives presented are helpful to policy makers or to those in a position to work on policy, such as presidents, chancellors, and boards.

This trend of deemphasizing the federal funding of higher education is certain to change with President Clinton's commitment to education in his recent State of the Union address. The struggle to determine more efficient ways to allocate funds will continue, however, regardless of whether the emphasis is state or federal funding or both. Lafer's plea for more research on the impact of changes in methods and approaches to allocated funds will remain an important direction for future research.

Controlling Expenses

There are a number of articles from the public, businesses, and boards that call for reducing costs and controlling expenses. In contrast, there is virtually no literature from the higher education community on controlling costs. Only a handful of institutions have shared techniques or approaches for managing finances.

One strategy discussed as a means of reducing costs is decentralization of operational units in the institution (Otten). Although Harvard and some other institutions have used this strategy for years, the advantages and disadvantages of such an approach are now being studied and assessed. Others describe ways to evaluate capital outlays in a time of increased competition for students and much remodeling on campuses. Some campuses have deferred maintenance for years, and the neglected infrastructure now must be addressed. John Swiger and Allen Klaus describe a process for evaluating the qualitative and quantitative benefits of each proposal. The process provides a means to solicit suggestions from those involved and detailed information on cost-benefit analysis. This area needs attention from both researchers and practitioners.

Tuition

In addition to managing costs, institutions are trying to maintain or reduce the cost of tuition, which has increased consistently higher than the rate of inflation the past ten years. One of the few major studies on trends in higher education finance was conducted by Lucie Lapovsky, who presents data from an ongoing study of tuition discounting at 270 independent colleges and universities. She discusses implications of the discounting trend, including how to inform the public of discounts and how effective the policy is in meeting institutional objectives. Samuel Speck describes a bold initiative at Muskingum College in Ohio, which decided to reduce tuition by one-third. The policy was adopted as part of a strategic plan to increase enrollment, improve entering students' test scores, boost the diversity of students, and slow the increase in the percentage of the institutional budget earmarked for student financial aid.

Others focus on the impact of financial aid on access. One report addresses the relationship among tuition, financial aid, and access to public higher education through an economic analysis of data from individual states from 1976 to 1993 (Heller). This study confirms that, at least among some groups, higher levels of grant spending are associated with higher enrollment rates. The model allows each state to predict its enrollment rate for each racial group and allows identification of the states where and years when enrollment rates for specific groups were high or low; it also allows states to analyze access. More research is needed in this area.

Analysis of data from the National Education Longitudinal Study found that a third of parents of high school seniors had not begun preparing for college costs and a quarter had begun only recently (Miller). Most did not expect savings to cover costs and had investigated financial aid, but relatively few had applied. Grants, scholarships, and fellowships were preferred over work and loans, confirming earlier studies. Research should be directed toward ways to educate parents about saving for college costs.

Mission versus Sponsor
An article by Chester Finn and Alan Wolfe examines the historical impact of funding on current missions and practice. It describes the expansion of federal funds after World War II to support research and a commitment for a college education to returning veterans. The resulting specialization of faculty, decentralization of departments and priorities, and expansion of faculty and graduate assistants provide an instructive example of how funding can radically alter the purpose of our institutions. Both in the United States and abroad, changes in funding are making people confront fundamental questions about institutional mission, constituencies, and values. At the University of Kuopio in Finland, for example, the decline in basic public funding requires the generation of new income, but new sources of income may have unwanted effects on the university's orientation (Teittinen). The University of California system faces a difficult dilemma, as reduced public funding challenges it to maintain the system at current cost and serve a much smaller proportion of the population or reduce overall cost per student. Both options compromise the system's overall mission (Callan). In this time of shifting resources, supported by evidence that funding influences priorities, it is important that research be conducted on the impact of new sources of funding.

Management of Endowments
Several authors describe the greater attention to and growing sophistication of fund management (Jones; Klinger; Morrell; Swieringa). Ronald Taylor describes the increasing sophistication of historically black colleges and universities. Others focus on strategies for and barriers to successful fund management (Yoder). Yoder discusses the investment of planned gifts and identifies three common administrative problems (inappropriate investment strategies, no tracking of performance, no comparisons of performance), three factors focusing greater attention on planned gifts (fiduciary responsibilities, rapid growth in planned giving, donors' sophistication), and three steps to a better investment approach (improving communication among offices, modeling from endowment investments, the hiring of experienced fund managers). Douglas Freeman advances advice for college and university fund-raisers and public relations professionals on trust management and their role in the "trust" relationship. Fund management will continue to be an important area for researchers and practitioners.

International Financing of Higher Education
Many other countries are looking to the United States for future direction in funding. On the international front, an effort is under way to reduce government influence and control. Case studies in Scotland and Sweden, for example, conclude that universities should relate their requests for public funding to specific missions, seeking autonomy by increasing nongovernmental funding sources (Lowe; West). Formula funding continues to grow in some parts of Europe (Turner); perhaps current changes in the United States can provide an example for countries that are for the first time exploring radical changes in the way they fund their institutions.

But institutions in the United States can also learn from experimentation at overseas campuses. For example, a new budget system developed for Norway creates a cooperative community for higher education in the Nordic countries that could serve as a model for the United States (Strom).

Several important issues are not addressed in the literature, but will become increasingly important, including the increasing importance of fund-raising as state funding shrinks, strategic planning in a time of shrinking resources, debt financing (although NACUBO has a 1996 publication on this issue), and creative budget strategies. More literature that examines financial decisions within the context of and impact on the entire institution is also needed. Research on the impact of individuals beyond the chief financial officer on financial issues would also be helpful.

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